

## Message Text

MRN: 1973PHNOM 005463 SEGMENT NUMBER: 000001 ERROR READING TEXT INDEX

FILE; TELEGRAM TEXT FOR THIS SEGMENT IS UNAVAILABLE

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ACTION EA-14

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R 040210 Z JUN 73

FM AMEMBASSY PHNOM PENH

TO SECSTATE WASHDC 1520

SECDEF WASHDC

INFO CJCS

CINCPAC

COMUSSAG

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5. IT IS OUR JUDGMENT THAT AT LEAST \$30 MILLION ANNUALLY IN FOREIGN EXCHANGE OUTSIDE THE CIP IS REQUIRED TO OPERATE THE PRESENT EXCHANGE RATE MECHANISM. SINCE OCTOBER 1971, WHEN THE PRESENT SYSTEM WAS INTRODUCED, RATE CHANGES HAVE ROUGHLY PARALLELED THE GROWTH IN THE MONEY SUPPLY, THUS MAKING THE RATE A MAJOR FACTOR IN DAMPENING INFLATION. TO MAKE THE SYSTEM WORK, IMPORTERS WHO BID FOR FOREIGN EXCHANGE FOR NON- CIP FINANCED GOODS MUST HAVE CONSIDERABLE FREEDOM TO SELECT BOTH THE GOODS AND THEIR SOURCE. OTHERWISE, THE RATE WILL BE DETERMINED ON THE BASIS OF TOO SMALL A SAMPLE AND MAY BE SUBJECT TO DISTORTING FLUCTUATIONS. WHILE THE REQUIREMENTS THAT A NUMBER OF GOODS MUST BE IMPORTED UNDER THE CIP AND THE FLAT PROHIBITION ON IMPORTATION OF OTHER GOODS MAY LIMIT THE RANGE OF CHOICE TO

IMPORTERS, NEVERTHELESS, THE SPECTRUM OF PRODUCTS IS STILL WIDE ENOUGH TO PERMIT THE FLEXIBLE EXCHANGE RATE MECHANISM TO OPERATE EFFICIENTLY. HOWEVER, ANY REQUIREMENT THAT A CERTAIN PERCENTAGE OF GOODS MUST BE PURCHASED IN THE U. S. UNDER THE ESF WOULD, IN OUR JUDGMENT, SUBSTANTIALLY IMPAIR THE EFFECTIVENESS OF THE RATE-SETTING MACHINERY AND PROBABLY BE MET BY SIMILAR DEMANDS ON THE PART OF OTHER CONTRIBUTORS. THIS WOULD MEAN THE END OF THE PRESENT EXCHANGE RATE SYSTEM. FROM A USG STANDPOINT, THIS WOULD BE HIGHLY UNDERSIRABLE. THE PRESENT ARRANGEMENT UNDER WHICH THE OFFICIAL RATE IS ALSO THE CIP RATE ( WITH THE DISCOUNT PROVIDED

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FOR U. S. GOODS) HAVE MEANT THE RATE IS A REALISTIC ONE, THUS DISCOURAGING THE USE OF THE CIP FOR SPECULATION ON THE BASIS OF AN OVERVALUED RATE.

6 . IN ASSESSING THE U. S. ROLE IN THE ESF VIS- A- VIS THAT OF OTHER DONORS, WE MUST TAKE ACCOUNT NOT ONLY THE APPROXIMATELY \$8.9 MILLION SECURED FROM JAPAN, AUSTRALIA, THE UNITED KINGDOM, THAILAND, NEW ZEALAND AND MALAYSIA IN 1973 BUT ALSO THE COMPENSATORY DRAWING OBTAINED FROM THE INTERNATIONAL MONETARY FUND WHICH HAS MADE THE GKR CONTRIBUTION OF \$7.0 MILLION POSSIBLE. WITHOUT THE ACTIVE SUPPORT OF THE IMF REPRESENTED BY THIS DRAWING AND THE TECHNICAL ASSISTANCE PROVIDED BY THE IMF RESIDENT REPRESENTATIVE IN PHNOM PENH, IT IS HIGHLY DOUBTFUL WHETHER THE ESF COULD HAVE BEEN STARTED AT ALL. THE IMF'S POSITION HAS BEEN CRITICAL TO GETTING OTHER COUNTRIES TO CONTRIBUTE. THUS WE SEE \$16.0 MILLION INFUNDS BEING MADE AVAILABLE TO THE ESF FROM NOC- U. S. SOURCES UNDER CIRCUMSTANCES THAT ARGUE FOR FLEXIBILITY ON THE QUESTION OF SOURCES OF PROCUREMENT. WE THINK UNITED PROCUREMENT UNDER THE ESF IS A REASONABLE POLICY WHEN, BUT FOR THE INTERNATIONAL SUPPORT AFFORDED BY THE SIX OTHER COUNTRIES AND THE IMF, THERE WOULD BE A SIGNIFICANTLY LARGER FINANCIAL BURDEN TO THE U. S. IN PROVIDING ASSISTANCE TO THE GKR.

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